

Murray State University

A Component Unit of the Commonwealth of Kentucky
Accountants' Report and Financial Statements
June 30, 2009 and 2008



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Independent Accountants' Report on Financial Statements and Supplementary Information

President Dr. Randy Dunn
and Board of Regents
Murray State University
Murray, Kentucky

We have audited the accompanying basic financial statements of Murray State University (University) and its aggregate discretely presented component unit, collectively a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Murray State University Foundation, Inc., the discretely presented component unit, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 21, in 2009 the University changed its method of accounting for certain grants by retroactively restating prior years' financial statements.

The accompanying management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BKD, LLP

November 13, 2009

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Murray State University

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Management's Discussion and Analysis

Introduction

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of Murray State University (University) for the year ended June 30, 2009. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. The financial statements and related notes and this discussion and analysis are the responsibility of management.

The University is a comprehensive public institution of higher learning located in western Kentucky and primarily serves students in Kentucky, Illinois, Missouri, Tennessee and Indiana. The University has study centers in four other cities where it offers a diverse range of degree programs from associate to master levels, is composed of five academic colleges and a school of agriculture, and contributes to the region and state through related research and public service programs. The University is a charter member of the Ohio Valley Conference and a Division I member of the NCAA. The University serves as a residential, regional university offering core programs in the liberal arts, humanities, sciences and selected high-quality professional programs for approximately 10,000 students.

The tuition and fees for the 2008-09 academic year increased by \$114 per semester for a full time resident undergraduate student. Tuition and fees at the University continues to be significantly less than the national average.

The University consistently ranks among the nation's top public universities in the nation and has been recognized for its academic quality and affordability. *U.S. News & World Report's* 2010 edition of America's Best Colleges, considered by many to be the top college guide in the country, has recognized the University for the 19th consecutive year in the Best Universities-Master's South, which includes both private and public schools. This is the fifth consecutive year the University has ranked in the top 20. These rankings include the University as seventh in the Top Public University-Master's/South division. The University has appeared in the top 10 of that category for the past several years. Additionally, a tally of overall scores shows the University at 11th among the country's top public universities at the master's level. Factors considered in the rankings are reputation, retention rate, graduation rate, class size, student-faculty ratio, financial resources and alumni giving rate.

The University has been consistently recognized in the past for its high quality, affordable education and its unique setting. In addition to *U.S. News*, the University has been highly ranked by the *Princeton Review*, *Money Guide*, *Kiplinger's Personal Finance*, *Southern Living*, *Outdoor Life*, *Kaplan College Guide*, *GetEducated.Com*, the *MIT Student Review* and a Carnegie Mellon study. The University has also been featured in the *New York Times*, the *Chronicle of Higher Education* and the *London Times*.

The University continues to have a commitment to academic and extracurricular excellence, while retaining its status as an affordable institution of higher education.

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Management's Discussion and Analysis

Financial Highlights

- The University's financial position remained strong as of the end of the year, with assets of \$280.4 million and liabilities of \$80.1 million. Net assets, which represent the University's residual interest in assets after liabilities are deducted, were \$200.3 million or 71.4% of total assets. Net assets increased by \$11.9 million from 2008 to 2009.
- Fiscal operations were in accordance with the annual operating budget of approximately \$135 million. The University continued to be a strong employer for the region and employed approximately 3,840 individuals, including 570 faculty and 1,120 staff members and 2,150 students. These amounts include 1,353 regular and full time faculty and staff.
- Total operating state appropriations for 2008-09 decreased by \$2.5 million. This decrease was handled with a combination of tuition increases and significant reallocations within the University, done in a manner that least impacted instructional budgets.
- Construction of the chemistry facility in the science complex was completed in summer 2009. The Chemistry Building was started in summer 2006. Phase II funding of \$15 million from the Commonwealth of Kentucky 2004-06 biennium budget was the initial funding source for the Chemistry Building. Most of the Phase III funding was needed for completion of the Chemistry Building. The University requested and received approval for budgetary language changes in the 2008 legislative session to allow use of Phase III funding to be used for completion of the Chemistry Building.

Construction of an Engineering/Physics Building is planned in the future. Funding of \$30 million has been requested by the University from the Commonwealth of Kentucky 2010-12 biennium budget to construct the Engineering/Physics Building.

- In July 2007, the University issued \$14.5 million of general obligation bonds for the construction of a new residential college facility to replace the existing Richmond Residential College. The University also issued \$7.7 million of general obligation bonds in April 2009, of which \$1.4 million was used to complete this facility. This residential college opened for operations in August 2009 to house approximately 300 students for the fall 2009 semester.

The above referenced \$7.7 million bond issue will also fund various housing and dining system renovation and capital renewal projects costing less than \$600,000 each, in addition to providing funding of \$1.4 million for the new Richmond Residential College.

- In the fall 2006, the University began the selection phase for a new Enterprise Resource Planning (ERP) system. SunGard Higher Education was selected as the primary software vendor in June 2007. The implementation phase of the ERP project was started in July 2007 and currently includes core modules for Finance, Student Services, Student Financial Aid and Human Resources. The installation of a new campus wide ERP system will enhance the technology available to future and current students and enhance the data capabilities of all administrative systems. The project has a scope of \$8 million and was primarily funded from 2007-08 operations. The implementation of all core modules was completed in July 2009, as was scheduled, and was within established budget parameters.

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Management's Discussion and Analysis

- The University began construction of a new building in the fall 2007 to house Campus Public Safety and Emergency Management. The University internally funded the project with a scope of \$2.3 million. This facility opened for operation in January 2009 and has served as the center of emergency operations for Calloway County.
- The Commonwealth of Kentucky's 2008-10 biennium budget appropriated funds for capital renewal, replacement and maintenance. The Council on Postsecondary Education's (CPE) share of this appropriation has been allocated to each public institution, with the University's allocation being \$986,600. This is a matching program and requires that the university match 70 cents for each dollar received from the CPE allocation. The University's source for the matching funds was the Consolidated Educational Renewal and Replacement Fund. Most projects being funded under this program were completed in the summer 2009.
- The University's Board of Regents approved the purchase of 23 acres of land for \$1 million in Paducah, Kentucky and this land was purchased in April 2009. This land was purchased because of the suitable location for the possible construction of a new extended campus facility in Paducah. If constructed, this new facility will replace the current facility used for extended campus instruction in Paducah.
- The University invests \$13.7 million of endowment funds with the Murray State University Foundation, Inc. (Foundation). This portion represents 95% of the endowments owned by the University. Due to overall market conditions over the last few years, these endowment funds incurred an unrealized loss of \$1.6 million. The majority of this loss was covered by corresponding University restricted reserve balances that carry excess earnings from prior years. This action allowed for program spending to remain constant during the 2009 fiscal year.

Using the Financial Statements

The University's financial statements consist of Balance Sheets (Statements of Net Assets), Statements of Revenues, Expenses and Changes in Net Assets (Income Statements), Statements of Cash Flows and Notes to the Financial Statements. These financial statements and accompanying notes are prepared in accordance with the appropriate Governmental Accounting Standards Board (GASB) pronouncements.

These financial statements provide an entity-wide perspective and focus on the financial condition, results of operations and cash flows of the University as a whole.

Financial statements have also been included for the Foundation, a component unit, in accordance with the requirements of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Financial statements for this entity consist of Statements of Financial Position (Balance Sheets) and Statements of Activities (Income Statements). These statements are prepared in accordance with the appropriate Financial Accounting Standards Board (FASB) pronouncements. The Murray State University Athletic Foundation, Inc. is also a component unit, but not included due to materiality.

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Management's Discussion and Analysis

Balance Sheets

The Balance Sheets present a financial picture of the University's financial condition at the end of the 2009 and 2008 fiscal years by reporting assets (current and noncurrent), liabilities (current and noncurrent) and net assets. Net assets, the difference between total assets and total liabilities, are an important indicator of the current financial condition, while the change in net assets is an indicator of whether the overall financial position has improved or worsened during the year.

Assets

Total assets at the end of the fiscal year 2009 were \$280.4 million, of which capital assets, net of depreciation, represented the largest portion. Capital assets totaled approximately \$168.4 million or 60% of total assets and was primarily comprised of University-owned land, buildings, equipment and library holdings. Cash and cash equivalents amounted to \$70.7 million or 25.2% of total assets. Total assets increased by \$18.6 million during 2009, which was largely due to an increase in capital assets for the final construction of the new Richmond Hall and the Science Complex Phase II for Chemistry. Total assets increased by \$18.1 million during 2008, which was largely due to bond proceeds of the sale of General Receipts Series A issued for the construction of the new Richmond Hall.

Liabilities

Total liabilities at the end of the fiscal year 2009 were \$80.1 million, an increase of approximately \$6.7 million. Accounts payable increased by approximately \$.9 million, primarily due to the increase of expenditures for construction projects. Long-term debt obligations increased \$4.7 million, attributable primarily to the sale of General Receipts Series A bonds of \$7.7 million.

Total liabilities at the end of the fiscal year 2008 were \$73.4 million. Long-term debt obligations increased \$12.1 million, primarily attributable to the sale of General Receipts Series A bonds of \$14.5 million, of which Con Ed and Housing and Dining bond debt decreased \$1.8 million and \$.64 million, respectively.

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Management's Discussion and Analysis

Condensed Balance Sheets

	June 30, 2009	June 30, 2008	June 30, 2007
Assets			
Current assets	\$ 58,856,928	\$ 49,561,624	\$ 47,107,682
Noncurrent assets	53,154,960	64,435,741	54,381,611
Capital assets	168,370,809	147,750,180	142,197,757
Total assets	<u>\$ 280,382,697</u>	<u>\$ 261,747,545</u>	<u>\$ 243,687,050</u>
Liabilities			
Current liabilities	\$ 21,382,319	\$ 19,375,394	\$ 21,916,239
Noncurrent liabilities	58,702,356	53,977,396	42,590,938
Total liabilities	<u>80,084,675</u>	<u>73,352,790</u>	<u>64,507,177</u>
Net assets			
Invested in capital assets, net of related debt	112,861,206	109,428,719	103,709,376
Restricted for			
Nonexpendable	14,578,960	15,846,751	14,858,307
Expendable			
Scholarships, research, instruction and other	3,426,986	6,331,885	6,781,991
Loans	4,994,850	4,933,509	4,965,730
Capital	18,226,297	11,127,272	12,036,143
Debt service	6,410,405	6,621,719	5,824,464
Unrestricted	39,799,318	34,104,900	31,003,862
Total net assets	<u>200,298,022</u>	<u>188,394,755</u>	<u>179,179,873</u>
Total liabilities and net assets	<u>\$ 280,382,697</u>	<u>\$ 261,747,545</u>	<u>\$ 243,687,050</u>

Net Assets

Net assets, which represent total equity, of the University were divided into three major categories, defined as follows:

- Invested in capital assets, net of related debt - This category represents the institution's equity in property, buildings, equipment, library holdings and other plant assets owned by the University, less related depreciation and outstanding balances of borrowings used to finance the purchase or construction of those assets.
- Restricted - This category represents those assets subject to externally imposed restrictions governing their use and includes classifications of nonexpendable and expendable.

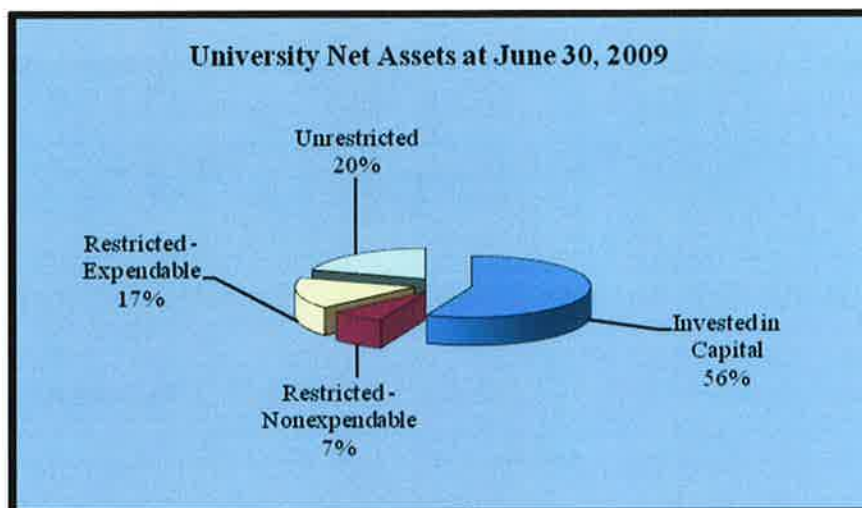
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- Restricted nonexpendable net assets - Restricted nonexpendable net assets consist solely of permanent endowments owned by the University. The corpus, as specified by the donor, is invested in perpetuity and may not be expended.
- Restricted expendable net assets - Restricted expendable net assets consist of those assets that may be expended by the University, but must be spent for purposes as defined by the donors and/or external entities that have placed time or purpose restrictions on the use of the assets.
- Unrestricted - This category represents the net assets held by the University that have no formal restrictions placed upon them. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the unrestricted net assets have been designated for various programs and initiatives, capital projects and working capital requirements.

The allocation of net assets between these three categories is provided in the following chart:



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Statements of Revenues, Expenses and Changes in Net Assets

The Statements of Revenues, Expenses and Changes in Net Assets, which are generally referred to as the activities statement or income statement, present the revenues earned and expenses incurred and income or loss from operations for the current and prior fiscal years. Activities are reported as either operating or non-operating. Changes in total net assets as presented on the Statements of Net Assets are based on the activity presented in the Statements of Revenues, Expenses and Changes in Net Assets.

The financial statements are prepared on the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. A public university's dependency on state appropriations will result in reported operating losses. The Governmental Accounting Standards Board requires state appropriations to be classified as nonoperating revenues. The utilization of long-lived capital assets is reflected in the financial statements as depreciation, which expenses the costs of an asset over its expected useful life.

Revenues

Total operating revenues, which exclude state appropriations, for the 2009 fiscal year were \$86.0 million, including student tuition and fees, net of related discounts and allowances, of \$48.5 million, operating grants and contracts revenues of \$6.9 million and auxiliary services net revenue of \$23.4 million.

During 2009, operating revenues increased by \$6.0 million. This increase is comprised primarily of an increase of \$4.9 million from net student tuition, fees, room and board and an increase of \$1.4 million of auxiliary revenues.

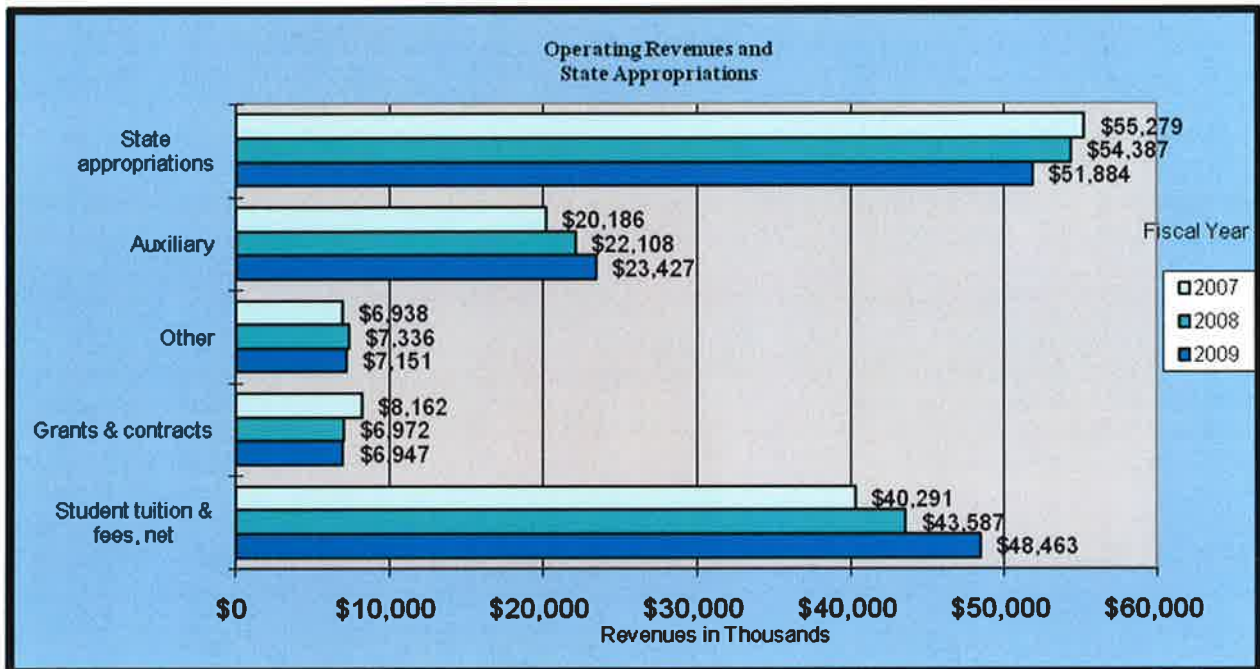
For 2009, the University received a net of \$51.9 million of state appropriations for operations. State appropriations are required to be classified as nonoperating revenues; however, these funds were used to support University operating activities.

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The comparative sources of total operating revenues and nonoperating state appropriation revenues are reflected in the following chart:



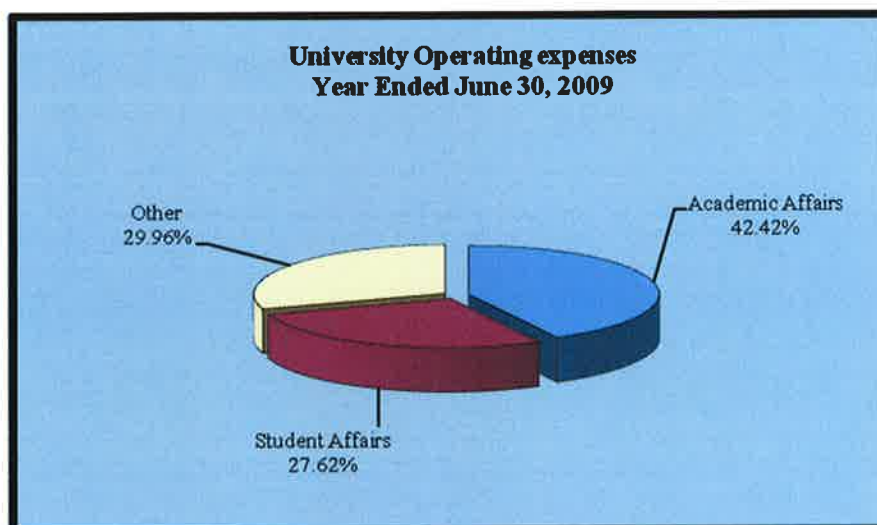
Expenses

Total operating expenses for the 2009 fiscal year were \$155.5 million. Academic affairs, which includes instruction, research, libraries and academic support, represents a significant portion of the operating expenses totaling \$65.9 million or 42.4%. Student affairs, which include student services, financial aid and auxiliary services, were \$42.9 million or 27.6% and other expenses which include public service, institutional support, depreciation and operation and maintenance amounted to \$46.6 million or 30.0%. Depreciation for all areas of the University is reported as an operating expense and was not allocated to each program group, except for auxiliary enterprises.

Operating expenses increased for the year ended June 30, 2009, by \$5.5 million. The primary reasons for increased operating expenses include a \$2.3 million increase for financial aid and an increase in auxiliary operating expenses of \$1.4 million.

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Operating expenses by type are reflected in the following chart:



The net loss from operations for the year ended June 30, 2009, was \$69.5 million. Nonoperating revenues, net of expenses, amounted to \$68.3 million and related capital funding not requiring debt, amounted to \$13.0 million, resulting in an increase in net assets of \$11.9 million for the year ended June 30, 2009.

The net loss from operations for the year ended June 30, 2008, was \$70.0 million. Nonoperating revenues, net of expenses, amounted to \$76.5 million and related capital funding not requiring debt, amounted to \$2.7 million, resulting in an increase in net assets of \$9.2 million for the year ended June 30, 2008.

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Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2009	2008	2007
Operating revenues			
Student tuition and fees, net	\$ 48,463,181	\$ 43,587,478	\$ 40,291,022
Grants and contracts	6,947,397	6,971,862	8,161,640
Other	7,151,361	7,336,292	6,937,806
Auxiliary, net	23,426,783	22,107,883	20,186,055
Total operating revenues	<u>85,988,722</u>	<u>80,003,515</u>	<u>75,576,523</u>
Operating expenses			
Instruction	55,416,671	55,595,539	55,574,695
Other educational and general	72,480,088	69,231,643	64,846,248
Depreciation	8,091,601	7,118,205	6,830,646
Auxiliary enterprises	18,676,811	17,269,537	16,615,131
Auxiliary depreciation	787,325	758,726	430,943
Total operating expenses	<u>155,452,496</u>	<u>149,973,650</u>	<u>144,297,663</u>
Operating loss	<u>(69,463,774)</u>	<u>(69,970,135)</u>	<u>(68,721,140)</u>
Nonoperating revenues			
State appropriations	51,884,300	54,386,600	55,278,600
Other nonoperating revenues	16,445,192	22,120,374	22,267,723
Total nonoperating revenues	<u>68,329,492</u>	<u>76,506,974</u>	<u>77,546,323</u>
Other revenues			
State capital appropriations and other	<u>13,037,549</u>	<u>2,678,043</u>	<u>12,268,616</u>
Increase in net assets	11,903,267	9,214,882	21,093,799
Net assets, beginning of year	<u>188,394,755</u>	<u>179,179,873</u>	<u>158,086,074</u>
Net assets, end of year	<u>\$ 200,298,022</u>	<u>\$ 188,394,755</u>	<u>\$ 179,179,873</u>

Statements of Cash Flows

The Statements of Cash Flows provide a summary of the sources and uses of cash by defined categories. The primary purposes of the Statements of Cash Flows are to provide information about the University's cash receipts and payments during the years and to help assess the University's ability to generate future net cash flows and meet obligations as they become due, as well as its need for external financing.

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For the year ended June 30, 2009:

The net cash used in operating activities reflects the net cash used for general operations of the University, which changed by approximately \$1.0 million during 2009.

The cash flows from noncapital financing activities, changed by \$3.4 million during 2009. This change was due to reductions in state appropriations.

The net cash flows used in capital and related financing activities represent cash received and used for the acquisition, construction and renovation of capital assets, changed by \$6.6 million during 2009. The majority of this change is due to a decrease in debt proceeds of \$6.8 million, an increase in state capital project allotments of \$11.2 million for the construction of the Chemistry Building and an increase in project expenditures of \$10.4 million.

The cash flows provided by investing activities represent the cash activities of investments, which changed by \$.8 million for 2009. This change was primarily due to a decrease in interest receipts on investments of \$2.4 million and an increase in proceeds of \$.5 million from sales of investments for debt service payments. Consolidated Educational bond payments are not currently funded from state appropriations due to adequate debt service reserves available for debt payments.

For the year ended June 30, 2008:

The net cash used in operating activities reflects the net cash used for general operations of the University, which changed by approximately \$.9 million during 2008.

The cash flows from noncapital financing activities changed by \$2.7 million during 2008. This change was due to an increase in gifts other than for capital purposes of \$1.3 million, an increase in endowment transfers to the Foundation for investment purposes of \$1.2 million and a decrease in state appropriations of \$892,000.

The net cash flows used in capital and related financing activities represent cash received and used for the acquisition, construction and renovation of capital assets, which changed by \$9.1 million during 2008. The majority of this change is due to the proceeds from issuance of capital debt of \$14.5 million and a decrease in capital asset purchases of \$9.0 million.

The cash flows provided by investing activities represent the cash activities of investments, which changed by \$1.8 million for 2008. A portion of this change is related to a decrease of \$1.5 million of proceeds from sales of investments for debt service payments. Consolidated Educational bond payments are not currently funded from state appropriations due to adequate debt service reserves available for debt payments.

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Condensed Statements of Cash Flows

	2009	2008	2007
Cash provided/(used) by			
Operating activities	\$ (61,107,523)	\$ (62,104,840)	\$ (61,215,969)
Noncapital financing activities	70,983,009	74,426,720	71,744,630
Capital and related financing activities	(11,612,224)	(5,012,957)	(14,108,352)
Investing activities	1,943,466	2,758,056	4,575,240
Net increase in cash	206,728	10,066,979	995,549
Cash and cash equivalents, beginning of year	70,479,164	60,412,185	59,416,636
Cash and cash equivalents, end of year	\$ 70,685,892	\$ 70,479,164	\$ 60,412,185

Capital Assets and Debt Administration

The University had a \$20.6 million increase in capital assets during the fiscal year ended June 30, 2009. This change is primarily due to an increase of \$10 million in construction costs related to the Chemistry Building and \$11 million for the new Richmond Residential College. Capital assets as of June 30, 2009, and changes during the year are as follows:

	Balance June 30, 2009	Net Change 2008-09
Land	\$ 9,596,196	\$ 1,000,000
Construction in progress	15,146,889	(3,861,997)
Museum and collectibles	551,643	19,250
Buildings	230,665,610	27,576,607
Nonbuilding improvements	11,298,409	952,703
Equipment	23,461,063	1,009,899
Software	1,803,325	1,803,325
Library holdings	29,671,839	663,074
Livestock	716,750	(10,000)
Accumulated depreciation	(154,540,915)	(8,532,232)
Total	\$ 168,370,809	\$ 20,620,629

The University issued new debt of \$7.67 million for the completion of a new residential college facility and renovation and capital renewal for various housing and dining facilities. The University paid \$2.9 million of long-term debt, per amortization schedules.

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Debt as of June 30, 2009, is summarized below:

	Balance June 30, 2009
Housing and Dining System Revenue Bonds	\$ 23,180,000
General Receipts Series A	21,740,000
Consolidated Educational Buildings Revenue Bonds	1,060,000
Bond discount	(703,405)
City of Murray	9,550,000
Other (see Notes to Financial Statements, Note 11)	6,535,715
Total	<u>\$ 61,362,310</u>

Infrastructure Assets

Infrastructure assets are defined by GASB No. 34 as long-lived assets that are normally stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. These types of assets will typically be permanent nonbuilding additions that service the entire campus. The University has adopted the modified approach of accounting for its infrastructure assets. This approach requires that an asset management system be established and maintained. Such a system would assess and disclose that all eligible infrastructure assets are being preserved approximately at (or above) a condition level established. To date, the University has not identified any assets that should be classified as infrastructure.

Economic Factors Affecting Future Periods

- General state appropriations from the Commonwealth of Kentucky (Commonwealth) are uncertain at this time, since the Commonwealth's revenue projections are not yet recovering from the recent economic downturn. In addition, it is anticipated that there will be pressure to have moderate tuition rate increases for the next academic year.
- The University provides health insurance to employees through a self-funded program. As reflected in national trends, the costs of health claims will continue to be a major expense for the University. The University is implementing a major redesign of their health insurance plan for the 2010 calendar year. The University is planning to cover all initial costs associated with the plan redesign and not increase the share of premiums paid by employees for the calendar year 2010.
- The University is currently reviewing options and needs for residential college facilities, including the college courts complex. These include major renovations and/or replacements and are based on long-term occupancy projections and rental rates.

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- The University invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying balance sheets.

Contacting the University's Financial Management

This financial report is designed to provide a general overview of the University's finances and to show the University's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Vice President for Finance and Administrative Services, 322 Sparks Hall, Murray, KY 42071.

Murray State University
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Balance Sheets
June 30, 2009 and 2008

Assets

	<u>2009</u>	<u>2008</u>
Current Assets		
Cash and cash equivalents	\$ 45,289,020	\$ 38,610,070
Accounts receivable, net	8,594,125	5,959,992
Inventories	1,960,647	2,065,225
Prepaid expenses	870,341	723,917
Loans receivable, net	907,352	943,090
Interest receivable	<u>1,235,443</u>	<u>1,259,330</u>
Total current assets	<u>58,856,928</u>	<u>49,561,624</u>
Noncurrent Assets		
Restricted cash and cash equivalents	25,396,872	31,869,094
Restricted investments	23,343,191	28,182,209
Loans receivable, net	3,740,023	3,749,074
Capital assets	322,911,724	293,758,863
Accumulated depreciation	(154,540,915)	(146,008,683)
Debt issuance costs, net	<u>674,874</u>	<u>635,364</u>
Total noncurrent assets	<u>221,525,769</u>	<u>212,185,921</u>
 Total assets	 <u><u>\$ 280,382,697</u></u>	 <u><u>\$ 261,747,545</u></u>

Murray State University
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Balance Sheets
June 30, 2009 and 2008
(Continued)

Liabilities and Net Assets

	<u>2009</u>	<u>2008</u>
Current Liabilities		
Accounts payable	\$ 7,555,962	\$ 6,692,606
Self-insured health liability	805,439	1,252,159
Accrued payroll	5,657,894	4,025,127
Interest payable	779,087	589,630
Deposits	345,091	308,018
Deferred revenue	3,287,876	3,493,126
Current maturities of long-term liabilities	<u>2,950,970</u>	<u>3,014,728</u>
Total current liabilities	<u>21,382,319</u>	<u>19,375,394</u>
Noncurrent Liabilities		
Deposits	291,016	300,035
Revenue bonds, notes payable and capital leases	<u>58,411,340</u>	<u>53,677,361</u>
Total noncurrent liabilities	<u>58,702,356</u>	<u>53,977,396</u>
Total liabilities	<u>80,084,675</u>	<u>73,352,790</u>
Net Assets		
Invested in capital assets, net of related debt	112,861,206	109,428,719
Restricted for		
Nonexpendable – permanent endowments	14,578,960	15,846,751
Expendable		
Scholarships, research, instruction and other	3,426,986	6,331,885
Loans	4,994,850	4,933,509
Capital assets	18,226,297	11,127,272
Debt service	6,410,405	6,621,719
Unrestricted	<u>39,799,318</u>	<u>34,104,900</u>
Total net assets	<u>200,298,022</u>	<u>188,394,755</u>
Total liabilities and net assets	<u>\$ 280,382,697</u>	<u>\$ 261,747,545</u>

Murray State University Foundation, Inc.
Statements of Financial Position
June 30, 2009 and 2008

Assets

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 1,288,076	\$ 4,377,058
Accounts receivable, net of allowances, 2009 – \$18,676, 2008 – \$18,192	35,040	21,835
Accounts receivable, L.D. Miller Trust	248,248	308,398
Accounts receivable, Murray State University	96,776	-
Investments	54,558,605	66,144,382
Other investments	713,414	868,414
Prepaid and other current assets	44,900	43,356
Contributions receivable	1,031,101	25,352
Notes receivable	56,229	66,333
Property and equipment	<u>3,306,055</u>	<u>3,416,128</u>
 Total assets	 <u>\$ 61,378,444</u>	 <u>\$ 75,271,256</u>

Murray State University Foundation, Inc.
Statements of Financial Position
June 30, 2009 and 2008
(Continued)

Liabilities and Net Assets

	<u>2009</u>	<u>2008</u>
Liabilities		
Accounts payable	\$ 20,836	\$ 152,583
Amounts due to related parties	667,679	510,245
Accrued expenses	33,683	32,198
Deferred revenue	38,685	38,254
Assets held for others	16,318,575	20,502,183
Annuities payable	3,433,252	3,479,902
Refundable advances	411,388	545,138
Capital lease obligation	<u>48,522</u>	<u>78,253</u>
Total liabilities	<u>20,972,620</u>	<u>25,338,756</u>
Net Assets		
Unrestricted	5,900,311	9,224,408
Temporarily restricted	5,850,353	13,525,167
Permanently restricted	<u>28,655,160</u>	<u>27,182,925</u>
Total net assets	<u>40,405,824</u>	<u>49,932,500</u>
Total liabilities and net assets	<u><u>\$ 61,378,444</u></u>	<u><u>\$ 75,271,256</u></u>

Murray State University
A Component Unit of the Commonwealth of Kentucky
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Revenues		
Operating revenues		
Student tuition and fees	\$ 78,206,406	\$ 74,275,466
Less discounts and allowances	(29,743,225)	(30,687,988)
Net tuition and fees	<u>48,463,181</u>	<u>43,587,478</u>
Federal grants and contracts	4,687,137	4,964,470
State grants and contracts	1,811,712	1,587,845
Local and private grants and contracts	448,548	419,547
Total grants and contracts	<u>6,947,397</u>	<u>6,971,862</u>
Sales and services of educational departments	5,037,129	5,416,141
Other operating revenues	2,114,232	1,920,151
Total sales, services and other revenues	<u>7,151,361</u>	<u>7,336,292</u>
Auxiliary enterprises revenues (Revenues are pledged as security for the Housing and Dining Revenue System Bond Series L – Q)	24,245,278	23,132,733
Less discounts and allowances	(818,495)	(1,024,850)
Net auxiliary revenue	<u>23,426,783</u>	<u>22,107,883</u>
Total operating revenues	<u>85,988,722</u>	<u>80,003,515</u>
Expenses		
Operating expenses		
Instruction	55,416,671	55,595,539
Research	1,517,552	2,004,556
Public service	7,250,703	6,354,773
Libraries	2,255,357	2,041,142
Academic support	6,729,684	6,507,060
Student services	14,129,154	14,680,187
Institutional support	14,451,519	12,582,151
Operation and maintenance of plant	16,052,952	17,266,268
Student financial aid	10,093,167	7,795,506
Depreciation	8,091,601	7,118,205
Auxiliary enterprises	18,676,811	17,269,537
Auxiliary depreciation	787,325	758,726
Total operating expenses	<u>155,452,496</u>	<u>149,973,650</u>
Operating Loss	<u>\$ (69,463,774)</u>	<u>\$ (69,970,135)</u>

Murray State University
A Component Unit of the Commonwealth of Kentucky
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2009 and 2008
(Continued)

	<u>2009</u>	<u>2008</u>
Nonoperating Revenues (Expenses)		
State appropriations	\$ 51,884,300	\$ 54,386,600
Restricted student fees (revenues are pledged as security for the City of Murray debt agreement)	644,137	656,886
Federal grants and contracts	9,501,216	8,314,294
State grants and contracts	8,063,120	8,929,756
Local and private grants and contracts	505,618	363,378
Gifts	886,643	2,056,003
Investment income (loss)	(856,752)	4,834,739
Interest on capital asset-related debt	(2,163,383)	(2,294,982)
Loss on deletion and disposal of capital assets	(62,542)	(666,835)
Bond amortization	(72,865)	(72,865)
	<u>68,329,492</u>	<u>76,506,974</u>
Net nonoperating revenues		
	<u>68,329,492</u>	<u>76,506,974</u>
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	(1,134,282)	6,536,839
State capital appropriations	12,818,690	1,978,837
Insurance proceeds	16,427	-
Capital gifts	202,432	699,206
	<u>13,037,549</u>	<u>2,678,043</u>
Increase in Net Assets	11,903,267	9,214,882
Net Assets, Beginning of Year	<u>188,394,755</u>	<u>179,179,873</u>
Net Assets, End of Year	<u>\$ 200,298,022</u>	<u>\$ 188,394,755</u>

Murray State University Foundation, Inc.
Statements of Activities
Years Ended June 30, 2009 and 2008

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Contributions	\$ 1,771	\$ 1,878,647	\$ 1,676,630	\$ 3,557,048
Revenues from operations of the Frances E. Miller Memorial Golf Course	528,299	21,041	-	549,340
Fees	278,572	25,387	-	303,959
Investment return	(2,864,693)	(6,842,067)	31,974	(9,674,786)
Other	79,712	(124,697)	82,578	37,593
Change in value of annuities payable	-	-	(318,947)	(318,947)
Net assets released from restrictions	2,633,125	(2,633,125)	-	-
 Total revenues, gains and other support	656,786	(7,674,814)	1,472,235	(5,545,793)
Expenses and Losses				
Payments made on behalf of Murray State University	2,442,611	-	-	2,442,611
Frances E. Miller Memorial Golf Course	485,868	-	-	485,868
General and administrative	1,052,404	-	-	1,052,404
 Total expenses and losses	3,980,883	-	-	3,980,883
 Change in Net Assets	(3,324,097)	(7,674,814)	1,472,235	(9,526,676)
Net Assets, Beginning of Year	9,224,408	13,525,167	27,182,925	49,932,500
Net Assets, End of Year	\$ 5,900,311	\$ 5,850,353	\$ 28,655,160	\$40,405,824

Murray State University Foundation, Inc.
Statements of Activities
Years Ended June 30, 2009 and 2008
(Continued)

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Contributions	\$ 2,000	\$ 1,316,524	\$ 1,997,767	\$ 3,316,291
Revenues from operations of the Frances E. Miller Memorial Golf Course	538,225	-	-	538,225
Fees	316,655	-	-	316,655
Investment return	1,133,879	(516,066)	50,572	668,385
Other	(181,795)	272,321	37,833	128,359
Net assets released from restrictions	2,438,160	(2,438,160)	-	-
Total revenues, gains and other support	4,247,124	(1,365,381)	2,086,172	4,967,915
Expenses and Losses				
Payments made on behalf of Murray State University	2,438,160	-	-	2,438,160
Frances E. Miller Memorial Golf Course	631,786	-	-	631,786
General and administrative	1,062,431	-	-	1,062,431
Total expenses and losses	4,132,377	-	-	4,132,377
Change in Net Assets	114,747	(1,365,381)	2,086,172	835,538
Net Assets, Beginning of Year	9,109,661	14,890,548	25,096,753	49,096,962
Net Assets, End of Year	\$ 9,224,408	\$ 13,525,167	\$ 27,182,925	\$ 49,932,500

Murray State University
A Component Unit of the Commonwealth of Kentucky
Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities		
Tuition and fees	\$ 48,451,127	\$ 43,121,712
Grants and contracts	5,956,742	8,127,627
Salaries, wages and benefits	(85,582,289)	(86,036,846)
Payments to suppliers	(31,554,468)	(30,802,791)
Payments to students for financial aid	(10,093,167)	(7,795,506)
Computer loans issued to employees	(43,579)	(37,648)
Collection of computer loans to employees	37,269	49,908
Loans issued to students	(718,851)	(1,131,065)
Collection of loans to students	674,062	778,107
Sales and services	4,752,063	5,078,653
Other operating revenues	2,115,722	1,920,311
Auxiliary enterprises revenues		
Food service	8,331,148	7,909,716
Housing	9,868,352	8,884,692
Book store	5,140,776	4,906,009
Other	208,565	180,330
Auxiliary enterprises payments		
Salaries, wages and benefits	(6,037,094)	(5,866,778)
Payment to suppliers	(12,613,901)	(11,391,271)
Net cash used in operating activities	<u>(61,107,523)</u>	<u>(62,104,840)</u>
Cash Flows from Noncapital Financing Activities		
State appropriations	51,884,300	54,386,600
Grants and contracts	18,069,954	17,607,428
Endowment transfers to MSU Foundation	323,783	362,167
Gifts for other than capital purposes	694,764	2,056,003
Agency transactions	<u>10,208</u>	<u>14,522</u>
Net cash provided by noncapital financing activities	<u>70,983,009</u>	<u>74,426,720</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from capital debt, net of discount	7,500,000	14,302,200
Restricted student fees pledged for debt service	644,137	656,886
State capital appropriations	11,167,753	4,101
Purchases of capital assets	(25,802,869)	(15,384,439)
Capital gift	146,085	7,831
Insurance proceeds	16,427	-
Principal paid on capital debt and leases	(2,942,157)	(2,396,151)
Interest paid on capital debt and leases	<u>(2,341,600)</u>	<u>(2,203,385)</u>
Net cash used in capital and related financing activities	<u>\$ (11,612,224)</u>	<u>\$ (5,012,957)</u>

Murray State University
A Component Unit of the Commonwealth of Kentucky
Statements of Cash Flows
Years Ended June 30, 2009 and 2008
(Continued)

	2009	2008
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	\$ 2,885,813	\$ 2,350,180
Purchase of investments	(2,171,178)	(3,220,553)
Interest receipts on investments	1,228,831	3,628,429
Net cash provided by investing activities	1,943,466	2,758,056
Net Increase in Cash and Cash Equivalents	206,728	10,066,979
Cash and Cash Equivalents, Beginning of Year	70,479,164	60,412,185
Cash and Cash Equivalents, End of Year	70,685,892	70,479,164
Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets		
Cash and cash equivalents	45,289,020	38,610,070
Restricted cash and cash equivalents	25,396,872	31,869,094
Total cash and cash equivalents	\$ 70,685,892	\$ 70,479,164
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	\$ (69,463,774)	\$ (69,970,135)
Depreciation	8,878,926	7,876,931
Bad debt	321,300	353,376
Changes in assets and liabilities		
Accounts and loans receivable, net	(1,454,845)	(358,780)
Inventories	104,578	(100,275)
Prepaid expenses	(146,424)	136,036
Accounts payable	(367,306)	93,779
Self-insured health liability	(446,720)	(235,182)
Accrued payroll	1,632,767	92,909
Deposits	23,168	120,787
Deferred revenue	(189,193)	(114,286)
Net cash used in operating activities	\$ (61,107,523)	\$ (62,104,840)
Supplemental Cash Flows Information		
Gifts of capital assets	\$ 56,341	\$ 691,378
Accounts payable incurred for capital assets	\$ 2,572,566	\$ 1,743,744

Murray State University
A Component Unit of the Commonwealth of Kentucky
Notes to Financial Statements
June 30, 2009 and 2008

Note 1: Summary of Significant Accounting Policies

Nature of Operations

Murray State University (University) is a state-supported institution of higher education located in Murray, Kentucky, and is accredited by the Southern Association of Colleges and Schools. The University awards graduate and undergraduate degrees from five colleges and one school and serves a student population of approximately 10,000. The University is a component unit of the Commonwealth of Kentucky and is included in the general purpose financial statements of the Commonwealth.

Basis of Accounting and Financial Statement Presentation

The University prepares its financial statements as a business type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

For financial reporting purposes, the University is considered a special purpose government engaged only in business type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the University has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict (GASB) pronouncements.

In accordance with the provisions of GASB Statement No. 39 (GASB No. 39), *Determining Whether Certain Organizations are Component Units*, certain organizations are to be reported as component units of a primary government based on the nature and significance of that organization's relationship to the primary government. Application of this statement results in including Murray State University Foundation, Inc. (Foundation) as a discretely presented component unit of the University. The Foundation is a private nonprofit organization that reports under FASB standards, including FASB No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial report for these differences.

Cash and Cash Equivalents

The University considers all highly liquid investments that are immediately available to the University to be cash equivalents. Funds held by the Commonwealth of Kentucky are considered cash equivalents.

Murray State University
A Component Unit of the Commonwealth of Kentucky
Notes to Financial Statements
June 30, 2009 and 2008

Note 1: Summary of Significant Accounting Policies (Continued)

Restricted Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments that are externally restricted are classified as restricted assets. These assets are used to make debt service payments, maintain sinking or reserve funds, purchase or construct capital or other noncurrent assets or for other restricted purposes.

Investments

The University accounts for its investments at fair value. Fair value is determined using quoted market prices. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net assets.

Assets held by the Foundation represent those gifts and donations made directly to the University, which are held by the Foundation for investment purposes. The net appreciation and income of donor restricted endowments are available to the University for expenditure to the extent permitted by Kentucky law and the spending policy of the Foundation. The recognition of gifts, donations and endowment pledges are accounted for by the University in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

Accounts Receivable

Accounts receivable consists of tuition and fee charges, other operational activities and auxiliary enterprise services and amounts due from component units. Accounts receivable also include amounts due from the federal government, state and local governments or private sources, for nonexchange type agreements defined in accordance with GASB No. 33 or in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Capital Assets

All capital assets, as defined by University policy, are recorded at cost at the date of acquisition or, if donated, at fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to functional expense categories. Assets under capital leases are amortized over the estimated useful life of the asset or the lease term, whichever is shorter. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Murray State University
A Component Unit of the Commonwealth of Kentucky
Notes to Financial Statements
June 30, 2009 and 2008

Note 1: Summary of Significant Accounting Policies (Continued)

The following estimated useful lives are being used by the University:

<u>Asset</u>	<u>Estimated Life</u>
Buildings	40 years
Nonbuilding improvements	10-20 years
Equipment	5-15 years
Library holdings	10 years
Livestock	12 years
Software	8 years

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of borrowing. Total interest capitalized was \$367,673 and \$54,411 for the years ended June 30, 2009 and 2008, respectively.

The University owns historical collections housed throughout the campus that it does not capitalize, including artifacts in Wrather Museum. These collections adhere to the University's policy to (a) maintain them for public exhibition, education or research; (b) protect, keep unencumbered, care for and preserve them and (c) require proceeds from their sale to be used to acquire other collection items. Generally accepted accounting principles permit collections maintained in this manner to be charged to operations at time of purchase rather than capitalized.

Debt Issuance Costs

Debt issuance costs incurred have been deferred and are being amortized over the life of the debt using the straight-line method. Total amortization for each of the years ended June 30, 2009 and 2008, was \$33,050.

Compensated Absences

Employee vacation pay is accrued at year end for financial statement purposes. The liability and expense incurred are included at year end with accrued payroll, and as a component of compensation and benefit expense. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized.

Murray State University
A Component Unit of the Commonwealth of Kentucky
Notes to Financial Statements
June 30, 2009 and 2008

Note 1: Summary of Significant Accounting Policies (Continued)

Deferred Revenue

Deferred revenue includes amounts for tuition and fees, international program fees and certain auxiliary activities received prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from state capital appropriations and grant and contract sponsors for which eligibility requirements have not been fully satisfied or that have not yet been earned. Such amounts are recognized in the period to which the service relates or the grant/contract requirements have been met.

Net Assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets – expendable: Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend in accordance with time or purpose restrictions imposed by external third parties.

Restricted net assets – nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, sales and services of educational departments, auxiliary enterprises and other sources. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the Board of Regents to meet current expenses or for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

Release of Restricted Net Assets

When an expense is incurred for which both restricted and unrestricted net assets are available, the University's policy is to allow each departmental unit the flexibility to determine whether to first apply restricted or unrestricted resources based on the most advantageous application of resources in the particular circumstances.

Murray State University
A Component Unit of the Commonwealth of Kentucky
Notes to Financial Statements
June 30, 2009 and 2008

Note 1: Summary of Significant Accounting Policies (Continued)

Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of discounts and allowances, (2) sales and services of auxiliary enterprises, net of discounts and allowances, (3) federal, state and local grants and contracts (excluding Pell and similarly funded federal and state grants for student financial aid) and (4) interest on institutional student loans.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions. In a nonexchange transaction, the University receives value without directly giving equal value back, such as a gift or grant for which there is no return requirement. Additionally, certain significant revenues relied upon for operations, such as state appropriations, Pell and similarly funding federal and state grants for student financial aid, investment income and endowment income, are recorded as nonoperating revenues, in accordance with GASB No. 35.

Tuition Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of discounts and allowances. Discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is payable by students. Certain grants, including federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues, while Pell grants are recorded as nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a discount and allowance. Financial aid expense represents payments made to students.

Income Taxes

The University is a component of the Commonwealth of Kentucky and is not subject to federal income tax as described in section 115 of the Internal Revenue Code. However, the University is subject to federal income tax on any unrelated business taxable income.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to use estimates and assumptions. The accompanying financial statements include estimates for items such as allowances for doubtful accounts and loans receivable, self-insurance liabilities and other accrued liabilities. Actual results could differ from those estimates.

Murray State University
A Component Unit of the Commonwealth of Kentucky
Notes to Financial Statements
June 30, 2009 and 2008

Note 1: Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

The Governmental Accounting Standards Board has issued the following three statements for implementation. Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which provides guidance on how to identify, account for and report intangible assets and becomes effective for fiscal year ending June 30, 2010. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, provides guidance on reporting derivative instruments at fair value using the economic resources measurement focus and the accrual basis of accounting and becomes effective for the fiscal year ending June 30, 2010. Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, provides guidance as to clarifying fund balance classifications and becomes effective for fiscal year ending June 30, 2011. The impact of applying these new statements has not yet been determined.

Reclassifications

Certain reclassifications to fiscal year 2008 comparative amounts have been made to conform to the fiscal year 2009 financial statement classifications in accordance with accounting principles generally accepted in the United States of America. Pell grants of \$6,994,889 previously reported as operating revenue in the 2008 Statements of Revenues, Expenses and Changes in Net Assets have been reclassified and are now being reported as nonoperating revenue. Additionally, certain transactions previously reported as cash flows from operating activities are now being reported as cash flows from noncapital financing activities in the Statements of Cash Flows. Such classifications had no effect on the change in net assets.

Note 2: Accounts Receivable

Accounts receivable consisted of:

	<u>2009</u>	<u>2008</u>
Current accounts receivable		
Student tuition and fees	\$ 3,108,290	\$ 3,063,519
Grants and contracts	2,897,913	1,963,348
Auxiliary fees	916,300	731,768
MSU and Racer Foundations	1,089,842	1,062,777
Employee computer loans	16,978	10,667
Outside sales	446,056	434,948
State agencies	-	1,140
Commonwealth of KY – science complex phase III	1,931,700	296,820
Capital construction receivable – vendors	444	-
Allowance for doubtful accounts	<u>(1,813,398)</u>	<u>(1,604,995)</u>
Total current accounts receivable	<u>\$ 8,594,125</u>	<u>\$ 5,959,992</u>

Murray State University
A Component Unit of the Commonwealth of Kentucky
Notes to Financial Statements
June 30, 2009 and 2008

Note 3: Inventories

Inventories consisted of:

	<u>2009</u>	<u>2008</u>
University bookstore – resale	\$ 1,375,918	\$ 1,494,848
Physical plant – supplies	490,624	484,273
Food services – resale and supplies	84,053	70,673
Central stores – supplies	<u>10,052</u>	<u>15,431</u>
Total inventories	<u>\$ 1,960,647</u>	<u>\$ 2,065,225</u>

Note 4: Loans Receivable

Student loans made through the Federal Perkins Loan Program (Program) comprise substantially all of the loans receivable at June 30, 2009 and 2008. The Program provides for service cancellation of a loan at rates of 12.5% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses the University for amounts cancelled under these provisions.

As the University determines that loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2009 and 2008, the allowance for uncollectible loans was \$210,416 and \$206,847, respectively.

Loans receivable consisted of:

	<u>2009</u>	<u>2008</u>
Current loans receivable		
University loan programs	\$ 79,951	\$ 87,505
Federal nursing program	86,075	90,702
Federal Perkins program	<u>741,326</u>	<u>764,883</u>
Total current loans receivable, net	<u>907,352</u>	<u>943,090</u>
Noncurrent loans receivable		
Federal nursing program	344,970	358,929
Federal Perkins program	<u>3,395,053</u>	<u>3,390,145</u>
Total noncurrent loans receivable, net	<u>3,740,023</u>	<u>3,749,074</u>
Total loans receivable, net	<u>\$ 4,647,375</u>	<u>\$ 4,692,164</u>

Murray State University
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Note 5: Deposits, Investments and Investment Income (Loss)

Deposits

At June 30, 2009 and 2008, the carrying amounts of the University's bank balances and deposits were \$70,685,892 and \$70,479,164, respectively.

Effective October 3, 2008, the Federal Deposit Insurance Corporation (FDIC) increased its insurance limits on time and savings, as well as demand deposits to \$250,000 each. Deposits in excess of these amounts are secured by pledging Treasury or U.S. Government Agency securities having a quoted value equal to the total deposits less the FDIC insured amount as per Kentucky state statute KRS 41.240.

The University also maintains cash deposits with the Commonwealth of Kentucky, as overseen by the State Investment Commission (Commission). The Commission is charged with the oversight of the Commonwealth's investment programs pursuant to KRS 42.500. The Commonwealth's investments are categorized into four distinct classifications or "pools". The Short-Term Pool consists primarily of General Fund cash balances and provides liquidity for the remaining pools. The Intermediate-Term Pool represents Agency Fund investments, state held component unit and fiduciary fund accounts held for the benefit of others by the state. The Long-Term Pool invests the Budget Reserve Trust Fund account and any other funds deemed appropriate for the pool where liquidity is not a serious concern. The remaining fund is the Bond Proceeds Pool where capital construction bond proceeds are invested until expended for their intended purpose. Shares of the pool represent a divisible interest in the underlying securities and are not federally insured. However, all such investments in excess of FDIC are required to be fully collateralized by the U.S. Treasury and/or U.S. agency securities or other similar investments as provided by KRS 41.240. The pools have not been approved by the Securities and Exchange Commission. The University's shares within the pools may indirectly expose it to risks associated with fixed income investments; however, specific information about any such transactions is not available to the University.

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the University's deposits may not be returned to the University. The University does not have a formal deposit policy for custodial credit risk other than compliance with the provisions of state law.

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June 30, 2009 and 2008

Note 5: Deposits, Investments and Investment Income (Loss) (Continued)

Deposits as of June 30 consisted of:

	<u>2009</u>	<u>2008</u>
Depository accounts		
Local bank deposits, collateral held as a pledge in the University's name	\$ 6,570,328	\$ 5,545,098
Cash on hand	81,051	76,484
Foreign currency deposits	401,859	319,030
State Investment Pool – collateral required by KRS 41.240	<u>63,632,654</u>	<u>64,538,552</u>
Total deposits	<u>\$ 70,685,892</u>	<u>\$ 70,479,164</u>

Deposits as presented in the balance sheet captions include:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents, current	\$ 45,289,020	\$ 38,610,070
Restricted cash and cash equivalents	<u>25,396,872</u>	<u>31,869,094</u>
Total deposits	<u>\$ 70,685,892</u>	<u>\$ 70,479,164</u>

Investments

Investments carried at fair value consisted of:

	<u>2009</u>	<u>2008</u>
Money market funds restricted for capital purposes	\$ 7,730,488	\$ 8,445,125
Restricted assets held by the Foundation	<u>15,612,703</u>	<u>19,737,084</u>
Total investments	<u>\$ 23,343,191</u>	<u>\$ 28,182,209</u>

Murray State University
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Notes to Financial Statements
June 30, 2009 and 2008

Note 5: Deposits, Investments and Investment Income (Loss) (Continued)

Restricted investments for capital purposes are comprised of amounts invested for sinking fund and debt service reserves. Investments in U.S. Government securities and the collateral for repurchase agreements are registered in the name of Murray State University or held in the University's name by its agents and trustees. The University may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in equity securities.

University investments held by the Foundation are comprised of private donations received directly by the University and consist of expendable restricted funds as well as endowments. Assets held by the Foundation are invested primarily in an investment pool managed by the Foundation and are carried at fair value.

The assets in the Foundation investment pool are invested as follows:

	<u>2009</u>	<u>2008</u>
Percentage of pool invested in		
Mutual funds in equity securities	56%	67%
Mutual funds in fixed income securities	41	29
Other	<u>3</u>	<u>4</u>
 Total investments	 <u><u>100%</u></u>	 <u><u>100%</u></u>

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not, within its investment policy, formally limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The money market mutual funds are investments with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The University's investment policy requires investments to be in compliance with state statute. The University has no further policy that would limit its investment choices.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single user. The University places no limit on the amount that may be invested in any one issuer. The University does not hold more than 5% of its investments with a single issuer other than those investments held in mutual funds.

Murray State University
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Notes to Financial Statements
June 30, 2009 and 2008

Note 5: Deposits, Investments and Investment Income (Loss) (Continued)

Investment Income (Loss)

Investment income (loss) for the years ended June 30, consisted of:

	<u>2009</u>	<u>2008</u>
Assets held by the University		
Interest income	\$ 2,555,474	\$ 4,840,084
Assets held by the Foundation		
Investment income restricted reserve funds	2,218	-
Investment income (loss) endowment funds	(1,028,965)	1,770,034
Net decrease in fair value of restricted reserve investments	(1,015,320)	(1,775,379)
Net decrease in fair value of endowment investments	<u>(1,370,159)</u>	<u>-</u>
 Total investment income (loss)	 <u><u>\$ (856,752)</u></u>	 <u><u>\$ 4,834,739</u></u>

Note 6: Endowments

Changes in endowment assets for the years ended June 30:

	<u>2009</u>	<u>2008</u>
Endowment assets, beginning of year	<u>\$ 15,846,751</u>	<u>\$ 14,858,308</u>
Investment return		
Investment income	2,218	625
Net depreciation	<u>(1,370,159)</u>	<u>-</u>
Total investment return	<u>(1,367,941)</u>	<u>625</u>
 Contributions	 <u>100,150</u>	 <u>987,818</u>
 Endowment assets, end of year	 <u><u>\$ 14,578,960</u></u>	 <u><u>\$ 15,846,751</u></u>

Murray State University
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Notes to Financial Statements
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Note 7: Capital Assets

Capital asset activity for the year ended June 30, 2009, was:

	<u>Balance June 30, 2008</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions/ Retirements</u>	<u>Balance June 30, 2009</u>
Land	\$ 8,596,196	\$ -	\$ 1,000,000	\$ -	\$ 9,596,196
Construction in progress	19,008,886	29,426,243	(31,555,555)	(1,732,685)	15,146,889
Museum and collectibles	532,393	19,250	-	-	551,643
Total capital assets not being depreciated	<u>28,137,475</u>	<u>29,445,493</u>	<u>(30,555,555)</u>	<u>(1,732,685)</u>	<u>25,294,728</u>
Buildings	203,089,003	-	27,799,527	(222,920)	230,665,610
Nonbuilding improvements	10,345,706	-	952,703	-	11,298,409
Equipment	22,451,164	1,009,899	-	-	23,461,063
Library holdings	29,008,765	841,794	-	(178,720)	29,671,839
Livestock	726,750	-	-	(10,000)	716,750
Software	-	-	1,803,325	-	1,803,325
Total other capital assets	<u>265,621,388</u>	<u>1,851,693</u>	<u>30,555,555</u>	<u>(411,640)</u>	<u>297,616,996</u>
Total capital assets before depreciation	<u>293,758,863</u>	<u>31,297,186</u>	<u>-</u>	<u>(2,144,325)</u>	<u>322,911,724</u>
Less accumulated depreciation					
Buildings	100,977,395	5,490,278	-	(176,947)	106,290,726
Improvements other than buildings	5,569,524	545,332	-	-	6,114,856
Equipment	16,488,974	1,523,554	-	1,704	18,014,232
Library holdings	22,851,336	1,039,617	-	(169,784)	23,721,169
Livestock	121,454	54,729	-	(1,667)	174,516
Software	-	225,416	-	-	225,416
Total accumulated depreciation	<u>146,008,683</u>	<u>\$ 8,878,926</u>	<u>\$ -</u>	<u>\$ (346,694)</u>	<u>154,540,915</u>
Capital assets, net	<u>\$ 147,750,180</u>				<u>\$168,370,809</u>

Murray State University
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Notes to Financial Statements
June 30, 2009 and 2008

Note 7: Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2008, was:

	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions/ Retirements</u>	<u>Balance June 30, 2008</u>
Land	\$ 8,783,261	\$ -	\$ -	\$ (187,065)	\$ 8,596,196
Construction in progress	26,890,461	14,290,242	(19,317,706)	(2,854,111)	19,008,886
Museum and collectibles	<u>532,393</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>532,393</u>
Total capital assets not being depreciated	<u>36,206,115</u>	<u>14,290,242</u>	<u>(19,317,706)</u>	<u>(3,041,176)</u>	<u>28,137,475</u>
Buildings	188,334,280	-	17,500,638	(2,745,915)	203,089,003
Nonbuilding improvements	9,786,566	-	1,068,665	(509,525)	10,345,706
Equipment	21,728,927	1,068,676	748,403	(1,094,842)	22,451,164
Library holdings	28,096,921	956,436	-	(44,592)	29,008,765
Livestock	<u>182,750</u>	<u>634,950</u>	<u>-</u>	<u>(90,950)</u>	<u>726,750</u>
Total other capital assets	<u>248,129,444</u>	<u>2,660,062</u>	<u>19,317,706</u>	<u>(4,485,824)</u>	<u>265,621,388</u>
Total capital assets before depreciation	<u>284,335,559</u>	<u>16,950,304</u>	<u>-</u>	<u>(7,527,000)</u>	<u>293,758,863</u>
Less accumulated depreciation					
Buildings	99,063,076	4,591,586	-	(2,677,267)	100,977,395
Improvements other than buildings	5,363,283	461,003	-	(254,762)	5,569,524
Equipment	15,828,200	1,687,184	-	(1,026,410)	16,488,974
Library holdings	21,826,776	1,066,922	-	(42,362)	22,851,336
Livestock	<u>56,467</u>	<u>70,237</u>	<u>-</u>	<u>(5,250)</u>	<u>121,454</u>
Total accumulated depreciation	<u>142,137,802</u>	<u>\$ 7,876,932</u>	<u>\$ -</u>	<u>\$(4,006,051)</u>	<u>146,008,683</u>
Capital assets, net	<u>\$ 142,197,757</u>				<u>\$ 147,750,180</u>

Murray State University
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Note 8: Accounts Payable

Accounts payable consisted of:

	<u>2009</u>	<u>2008</u>
Current accounts payable		
Vendors	\$ 6,111,251	\$ 4,568,227
Payroll benefits and withholdings	1,322,183	2,114,602
MSU Foundation	65,426	-
Loans	<u>57,102</u>	<u>9,777</u>
Total accounts payable	<u>\$ 7,555,962</u>	<u>\$ 6,692,606</u>

Note 9: Employee Benefits

Kentucky Teachers Retirement System

All employees required to hold a degree and occupying full-time positions, defined as seven-tenths (7/10) of normal full-time service on a daily or weekly basis are required by state law to participate in the Kentucky Teachers Retirement System (KTRS) or an optional retirement plan, as allowed by KRS161.567. KTRS, a cost sharing, multiple-employer, public employee retirement system, provides retirement benefits based on an employee's final average salary and number of years of service. Benefits are subject to certain reductions if the employee retires before reaching age 60 or has less than 27 years of participation in the plan. The plan also provides for disability, death and survivor benefits and medical insurance.

The KTRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601-3800 or by calling (502) 848-8500.

Funding for the plan is provided from eligible employees who contribute 6.16% of their salary through payroll deductions and the University, which also contributes 13.84% of current eligible employees' salaries to the KTRS. Employees who join KTRS after July 1, 2008, contribute 6.16% of their salary plus an additional 1% (nonrefundable) for the medical insurance fund for a total of 7.16%, and the University also contributes 14.84% of current eligible employees' salaries to the KTRS. Kentucky Revised Statutes and the KTRS Board of Trustees establish contribution requirements of the plan members and the University. The University's contributions to KTRS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$4,570,119, \$4,180,478, \$4,125,096, respectively, and were equal to the required contributions.

Murray State University
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Notes to Financial Statements
June 30, 2009 and 2008

Note 9: Employee Benefits (Continued)

Kentucky Employee Retirement System

Substantially, all other full-time University employees are required by law to participate in the Kentucky Employee Retirement System (KERS), a cost sharing multiple-employer, public employee retirement system. KERS provides retirement benefits based on an employee's final average salary and number of years of service. Benefits are subject to certain reductions if the employee retires before reaching age 65 or has less than 27 years of service. The plan also provides for disability, death and survivor benefits and medical insurance.

The KERS issues a publicly available financial report that includes financial statements and required supplementary information. That report is obtainable by writing to Kentucky Employees Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601 or by calling (502) 564-4646.

Funding of the plan is from eligible employees who contribute 5.00% of their salary through payroll deductions and the University, which also contributes 10.01% of current eligible employees' salaries to the nonhazardous KERS fund. Additionally, nonhazardous employees who began participating with KERS on or after September 1, 2008, contribute a total of 6%, consisting of 5% credited to the member's account, plus 1% to be deposited to the KRS insurance fund. Employees covered by the hazardous KERS fund contribute 8.00% of gross salary and the University contributes 24.35% of gross salaries. Hazardous employees who began participating with KERS on or after September 1, 2008, contribute a total of 9% of gross salary, with 8% credited to the member's account and 1% deposited to the KRS insurance fund. The Kentucky Revised Statutes and the Board of Trustees of the Kentucky Retirement Systems determine contribution rates each biennium. The University's contributions to KERS for the years ended June 30, 2009, 2008 and 2007 were \$1,662,025, \$1,368,904 and \$1,207,251, respectively, and were equal to the required contributions.

University Health Self-Insurance Program

The University maintains a self-insurance program for employees' health insurance. For the fiscal year ended June 30, 2009, the University paid approximately 93% of total plan expenses for permanent full-time employees and their families. Expenses incurred to cover claims paid by the University under the plan for years ended June 30, 2009 and 2008, totaled \$5,272,538 and \$6,696,263, respectively. Stop loss and administrative fees are disclosed in the chart below. The University's stop-loss insurance limits its exposure for claims to \$100,000 per individual.

Murray State University
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June 30, 2009 and 2008

Note 9: Employee Benefits (Continued)

Changes in the liability for self insurance are follows:

	<u>2009</u>	<u>2008</u>
Liability, beginning of year	\$ 1,252,159	\$ 1,487,341
Accruals for current year claims and changes in estimate (includes employee and employer contributions)	6,761,123	7,626,950
Administrative and stop-loss fees	(966,974)	(853,203)
Claims paid	<u>(6,240,869)</u>	<u>(7,008,929)</u>
Liability, end of year	<u>\$ 805,439</u>	<u>\$ 1,252,159</u>

Note 10: Deferred Revenue

Deferred revenue consisted of:

	<u>2009</u>	<u>2008</u>
Current deferred revenue		
Prepaid tuition and fees	\$ 1,860,077	\$ 1,826,901
International studies programs	555,311	745,355
Grants and contracts	610,853	666,946
Auxiliary enterprises	41,318	17,550
Capital state appropriations	<u>220,317</u>	<u>236,374</u>
Total current deferred revenue	<u>\$ 3,287,876</u>	<u>\$ 3,493,126</u>

Murray State University
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Notes to Financial Statements
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Note 11: Revenue Bonds, Notes Payable and Capital Leases

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2009:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-Term Portion
Bonds payable	\$ 40,345,000	\$ 7,665,000	\$ (2,030,000)	\$ 45,980,000	\$ 1,900,000	\$ 44,080,000
Less bond discounts	(650,781)	(92,439)	39,815	(703,405)	(44,437)	(658,968)
Bonds payable, net of discounts	39,694,219	7,572,561	(1,990,185)	45,276,595	1,855,563	43,421,032
City of Murray payable	9,685,000	-	(135,000)	9,550,000	150,000	9,400,000
Master lease notes payable	6,059,870	-	(777,155)	5,282,715	714,407	4,568,308
Capital leases	1,253,000	-	-	1,253,000	231,000	1,022,000
Total bonds, notes and capital leases	<u>\$ 56,692,089</u>	<u>\$ 7,572,561</u>	<u>\$ (2,902,340)</u>	<u>\$ 61,362,310</u>	<u>\$ 2,950,970</u>	<u>\$ 58,411,340</u>

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2008:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-Term Portion
Bonds payable	\$ 26,780,000	\$ 14,550,000	\$ (985,000)	\$ 40,345,000	\$ 2,030,000	\$ 38,315,000
Less bond discounts	(442,796)	(247,800)	39,815	(650,781)	(39,805)	(610,976)
Bonds payable, net of discounts	26,337,204	14,302,200	(945,185)	39,694,219	1,990,195	37,704,024
City of Murray payable	9,805,000	-	(120,000)	9,685,000	135,000	9,550,000
Master lease notes payable	7,244,022	-	(1,184,152)	6,059,870	776,533	5,283,337
Capital leases	1,360,000	-	(107,000)	1,253,000	113,000	1,140,000
Total bonds, notes and capital leases	<u>\$ 44,746,226</u>	<u>\$ 14,302,200</u>	<u>\$ (2,356,337)</u>	<u>\$ 56,692,089</u>	<u>\$ 3,014,728</u>	<u>\$ 53,677,361</u>

Murray State University
A Component Unit of the Commonwealth of Kentucky
Notes to Financial Statements
June 30, 2009 and 2008

Note 11: Revenue Bonds, Notes Payable and Capital Leases (Continued)

Maturity Information

A schedule of the mandatory principal and interest payments (excluding bond discounts) is presented below:

Years Ending June 30	Bonds	Notes	Total Principal	Interest	Total Payments
2010	\$ 1,900,000	\$ 1,095,407	\$ 2,995,407	\$ 2,599,275	\$ 5,594,682
2011	2,280,000	838,298	3,118,298	2,455,886	5,574,184
2012	2,360,000	869,951	3,229,951	2,334,699	5,564,650
2013	2,080,000	918,992	2,998,992	2,207,379	5,206,371
2014	2,160,000	968,910	3,128,910	2,086,642	5,215,552
2015-2019	12,105,000	4,219,157	16,324,157	8,400,856	24,725,013
2020-2024	12,250,000	2,045,000	14,295,000	5,190,529	19,485,529
2025-2029	10,845,000	2,580,000	13,425,000	2,032,475	15,457,475
2030-2033	-	2,550,000	2,550,000	286,464	2,836,464
Total	<u>\$ 45,980,000</u>	<u>\$ 16,085,715</u>	<u>\$ 62,065,715</u>	<u>\$ 27,594,205</u>	<u>\$ 89,659,920</u>

Murray State University
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Notes to Financial Statements
June 30, 2009 and 2008

Note 11: Revenue Bonds, Notes Payable and Capital Leases (Continued)

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Original Issue	Balance Due June 30, 2009	Interest Expense, Current Year	Bonds/Notes/ Leases Maturing 2009-2010
Housing and Dining System Revenue Bonds Payable				
Series L bonds dated September 1, 1968, with interest at 3.00%; final principal payment due September 1, 2008; Regents Hall	\$ 2,000,000	\$ -	\$ 1,897	\$ -
Series M bonds dated June 26, 1997, with interest from 4.00% to 5.40%; final principal payment due September 1, 2017; Winslow Cafeteria	825,000	470,000	24,922	40,000
Series N bonds dated May 12, 1999, with interest from 4.35% to 4.90%; final principal payment due September 1, 2018; fire safety for residence halls	6,370,000	4,160,000	185,265	300,000
Series O bonds dated June 1, 2001, with interest from 4.00% to 5.00%; final principal payment due September 1, 2021; Hart Hall	1,610,000	1,275,000	62,021	75,000
Series P bonds dated June 1, 2003, with interest from 1.10% to 4.10%; final principal payment due September 1, 2023; Winslow Cafeteria	2,500,000	2,000,000	69,665	105,000
Series Q bonds dated December 1, 2005, with interest from 4.00% to 4.59%; final principal payment due September 1, 2027; Clark Hall	<u>15,800,000</u>	<u>15,275,000</u>	<u>649,855</u>	<u>545,000</u>
Total housing and dining system revenue bonds payable	<u>\$ 29,105,000</u>	<u>\$ 23,180,000</u>	<u>\$ 993,625</u>	<u>\$ 1,065,000</u>

Murray State University
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Notes to Financial Statements
June 30, 2009 and 2008

Note 11: Revenue Bonds, Notes Payable and Capital Leases (Continued)

	Original Issue	Balance Due June 30, 2009	Interest Expense, Current Year	Bonds/Notes/ Leases Maturing 2009-2010
Consolidated Educational Buildings				
Revenue Bonds Payable				
Series H (second series) dated September 1, 2003, with interest from 2.00% to 3.80%; final principal payment due May 1, 2012; underground condensate lines for old Fine Arts building	\$ 2,855,000	\$ 1,060,000	\$ 45,867	\$ 340,000
General Receipts Bonds Payable				
Series A 2007 bonds dated July 31, 2007, with an interest rate of 4.00% to 4.50%; final principal payment date September 1, 2027; Richmond Hall	\$ 14,550,000	\$ 14,075,000	\$ 701,214	\$ 495,000
Series A 2009 bonds dated April 22, 2009, with an interest rate of 2.50% to 4.20%; final principal payment date September 1, 2028; completion of Richmond Hall and under \$600,000 various projects	7,665,000	7,665,000	52,025	-
Total general receipts bonds payable	\$ 22,215,000	\$ 21,740,000	\$ 753,239	\$ 495,000
Bonds payable before discount	\$ 54,175,000	\$ 45,980,000	\$ 1,792,731	\$ 1,900,000
Less bond discount	-	(703,405)	-	(44,437)
Total bonds payable	\$ 54,175,000	\$ 45,276,595	\$ 1,792,731	\$ 1,855,563
City of Murray Payable				
Agreement dated December 30, 2002, with interest of 2.50% to 4.85%; final principal payment due June 1, 2033; Wellness Center	\$ 10,000,000	\$ 9,550,000	\$ 444,504	\$ 150,000

Murray State University
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Notes to Financial Statements
June 30, 2009 and 2008

Note 11: Revenue Bonds, Notes Payable and Capital Leases (Continued)

	Original Issue	Balance Due June 30, 2009	Interest Expense, Current Year	Bonds/Notes/ Leases Maturing 2009-2010
Master Lease Payable				
Deferred maintenance – Master lease dated May 10, 2002, with interest from 3.56% to 4.79%; final principal payment due December 3, 2010	\$ 2,232,000	\$ 218,583	\$ 13,701	\$ 202,039
Campus energy performance upgrade – Master lease dated February 10, 2005, with interest of 3.94%; final principal payment due August 10, 2017	<u>6,707,876</u>	<u>5,064,132</u>	<u>214,135</u>	<u>512,368</u>
Total master lease payable	<u>\$ 8,939,876</u>	<u>\$ 5,282,715</u>	<u>\$ 227,836</u>	<u>\$ 714,407</u>
Capital Leases				
University of Kentucky dated June 25, 1998, with interest rate at 5.14%; final principal payment due January 1, 2017; Crisp Center	<u>\$ 2,200,000</u>	<u>\$ 1,253,000</u>	<u>\$ 66,870</u>	<u>\$ 231,000</u>
Total all Bond Issues, Notes Payable and Capital Leases	<u>\$ 75,314,876</u>	<u>\$ 61,362,310</u>	<u>\$ 2,531,941</u>	<u>\$ 2,950,970</u>

The revenue bond indentures require the University to make deposits to sinking and reserve funds in annual amounts to meet the principal and interest payments due within the next 12 months, as well as maintain a reserve balance as a percentage of outstanding balances. As of June 30, 2009 and 2008, the sinking fund and reserve fund requirements have been funded as required.

Capital Leases

The University leases certain equipment and facilities, under capital lease agreements. The recorded cost of these assets and accumulated depreciation thereon were as follows:

	2009	2008
Capital lease assets, at cost	\$ 2,200,000	\$ 2,200,000
Less accumulated depreciation	<u>(1,595,000)</u>	<u>(1,540,000)</u>
Net book value	<u>\$ 605,000</u>	<u>\$ 660,000</u>

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Notes to Financial Statements
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Note 11: Revenue Bonds, Notes Payable and Capital Leases (Continued)

Remaining minimum annual lease payments pursuant to these leases are as follows:

<u>Years Ending June 30</u>	<u>Total</u>
2010	\$ 358,988
2011	179,030
2012	179,532
2013	179,576
2014	179,179
2015-2017	<u>537,687</u>
	1,613,992
Less amount representing interest	<u>(360,992)</u>
Present value of capital lease obligations	<u><u>\$ 1,253,000</u></u>

Note 12: Deposits

The deposits held by the University consisted of:

	<u>2009</u>	<u>2008</u>
Current		
Horse stall rentals	\$ 5,380	\$ 3,890
Racer card declining balances	93,826	88,940
Housing deposits	167,075	146,586
Agency account balances	<u>78,810</u>	<u>68,602</u>
Total current deposits	345,091	308,018
Noncurrent		
Housing deposits	<u>291,016</u>	<u>300,035</u>
Total deposits	<u><u>\$ 636,107</u></u>	<u><u>\$ 608,053</u></u>

Noncurrent housing deposit additions were \$183,866 and \$216,336 for the years ended June 30, 2009 and 2008, respectively. Noncurrent housing deposit deductions were \$192,885 and \$129,236 for the years ended June 30, 2009 and 2008, respectively.

Murray State University
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Note 13: Unrestricted Net Assets

The University's designations of unrestricted net assets consisted of:

	<u>2009</u>	<u>2008</u>
Unrestricted net assets		
Allocated for		
Prior year carryovers		
Renovation and maintenance	\$ 2,725,918	\$ 1,588,521
Departmental operations	14,441,179	14,515,688
Encumbrances	807,896	468,370
Working capital	5,386,844	6,090,289
Revenue contingency	2,594,215	2,719,330
General contingency	12,943,266	7,822,702
Self insurance	900,000	900,000
	<u> </u>	<u> </u>
Total unrestricted net assets	<u>\$ 39,799,318</u>	<u>\$ 34,104,900</u>

Note 14: Component Units

Murray State University Foundation, Inc.

Murray State University Foundation, Inc. (Foundation) is a Kentucky nonprofit corporation formed to receive, invest and expend funds for the enhancement and improvement of the University. It is a legally separate, tax-exempt component unit of the University that manages certain endowments and investments on behalf of the University. The Foundation has a Board of Trustees separate from that of the University; however, the President and certain other officers of the University are also officers of the Foundation. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statement package.

During the years ended June 30, 2009 and 2008, the Foundation made payments of \$2,442,611 and \$2,438,160, respectively, on behalf of the University from restricted sources. Accounts receivable at June 30, 2009 and 2008, from the Foundation were \$667,679 and \$645,343, respectively. Accounts payable to the Foundation as of June 30, 2009 and 2008, respectively, were not significant. Complete financial statements for the Foundation can be obtained from the MSU Foundation Office, 100 Nash House, Murray, Kentucky 42071.

Murray State University
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Notes to Financial Statements
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Note 14: Component Units (Continued)

Significant notes to the Foundation's financial statements are as follows:

a) Investments and Investment Return

Investments at June 30 consisted of the following:

	2009	2008
Money market mutual funds	\$ 1,419,192	\$ 3,231,146
Certificates of deposit	283,200	33,200
Equity securities	24,617,889	31,014,639
Cash value of life insurance policies	383,481	351,178
Mutual funds	14,996,362	18,979,113
Asset-backed bonds	427,285	1,488,219
Mortgage-backed bonds	3,856,443	3,100,721
Government bonds	4,025,407	5,003,344
Municipal bonds	208,765	-
Corporate bonds	4,340,581	2,942,822
	<u>\$ 54,558,605</u>	<u>\$ 66,144,382</u>

Total investment return is comprised of the following:

	2009	2008
Interest and dividend income	\$ 1,599,017	\$ 1,832,540
Realized gains (losses) on investments reported at fair value	(3,878,456)	3,518,089
Unrealized losses on investments reported at fair value	(7,395,347)	(4,682,244)
	<u>\$ (9,674,786)</u>	<u>\$ 668,385</u>

The Foundation's temporarily and permanently restricted net assets include various endowment funds established by donors.

Murray State University
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Note 14: Component Units (Continued)

b) Assets Held for Others

Assets held for others represent resources in the possession of, but not under the control of, the Foundation. Assets held for others were as follows as of June 30:

	<u>2009</u>	<u>2008</u>
Murray State University	\$ 15,613,869	\$ 19,738,250
Murray State University Alumni Association	694,954	754,950
Others	<u>9,752</u>	<u>8,983</u>
	<u>\$ 16,318,575</u>	<u>\$ 20,502,183</u>

c) Annuities and Trusts Payable

The Foundation has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from donors are recorded at fair value on the date of the gift. The Foundation has recorded a liability at June 30, 2009 and 2008, of \$691,355 and \$703,984, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates ranging from 2.00% to 7.60%.

The Foundation administers several charitable remainder unitrusts and annuity trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime), either in the form of a percentage of the fair value of the trust's assets (unitrust) or in the form of a specified dollar amount (annuity trust). At the end of the trust's term, the remaining assets are available for the Foundation's use.

The portion of the trust attributable to the future interest of the Foundation is recorded in the statements of activities as temporarily restricted contributions in the period the trust is established. Assets (investments) held in the charitable remainder trusts are recorded at fair value in the Foundation's statements of financial position. The present value of the estimated future payments were \$2,741,897 and \$2,775,918 at June 30, 2009 and 2008, respectively, which was calculated using discount rates ranging from 5.00% to 8.00%, and applicable mortality tables.

Murray State University
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Note 14: Component Units (Continued)

d) Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30 are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Scholarships	\$ 101,474	\$ 8,044,705
Instruction/institutional support	5,571,537	5,084,405
Chairs and professorships	177,342	396,057
	<u>\$ 5,850,353</u>	<u>\$ 13,525,167</u>

e) Permanently Restricted Net Assets

Permanently restricted net assets at June 30 are restricted to:

	<u>2009</u>	<u>2008</u>
Investment in perpetuity, the income of which is		
Expendable to support		
Scholarships	\$ 22,512,074	\$ 21,906,161
Instruction/institutional support	4,640,656	3,803,981
Chairs and professorships	992,772	964,208
Operations of the Golf Course	190,621	190,372
Any activity of the Foundation	319,037	318,203
	<u>\$ 28,655,160</u>	<u>\$ 27,182,925</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2009</u>	<u>2008</u>
Scholarships	\$ 1,374,760	\$ 1,217,983
Instruction/institutional support	1,067,851	1,220,177
Reclassification of board-designated funds	190,514	-
	<u>\$ 2,633,125</u>	<u>\$ 2,438,160</u>

Murray State University
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Note 14: Component Units (Continued)

Murray State University Athletic Foundation, Inc.

Murray State University Athletic Foundation, Inc. (Racer Foundation) is a Kentucky nonprofit corporation formed to enhance the academic and athletic experience of the University student-athlete. The Racer Foundation has a Board of Directors separate from that of the University. The University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Racer Foundation holds and invests. The resources held by the Racer Foundation can only be used by, or for the benefit of, the University. The Racer Foundation is considered a component unit of the University. Due to materiality, the Racer Foundation financial statements are not presented in the University's financial statements.

Accounts receivable from the Racer Foundation was \$422,163 for each of the years ended June 30, 2009 and 2008. Complete financial statements for the Racer Foundation can be obtained from the MSU Athletic Foundation Office, Stewart Stadium, Murray, Kentucky 42071.

Note 15: Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; error and omission; employee injuries and illnesses; natural disasters and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation, natural disasters and employee health benefits. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The state of Kentucky self insures workers' compensation benefits for all state employees, including University employees. Claims are administered by the Risk Management Services Corporation.

Claims and Litigation

The University is a defendant in various lawsuits. It is the opinion of management and its legal counsel, based in part on the doctrine of sovereign immunity and other statutory provisions, that the ultimate outcome of litigation will not have a material effect on the future operations or financial position of the University.

Commitments

The University has outstanding commitments under construction contracts of approximately \$5,658,000 and \$14,900,000 as of June 30, 2009 and 2008, respectively.

Murray State University
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Note 16: Contingencies and Commitments (Continued)

Government Grants

The University is currently participating in numerous grants from various departments and agencies of the federal and state governments. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.

Note 17: Natural Expense Classifications with Functional Classifications

The University's operating expenses by functional classification for the years ended June 30 were as follows:

Fund Classification	Year Ended June 30, 2009						
	Natural Classification						
	Compensation and Benefits	Operations	Utilities	Noncapitalized Equipment	Scholarships	Depreciation	Total
Instruction	\$ 46,791,401	\$ 7,162,005	\$ 156,852	\$ 930,407	\$ 376,006	\$ -	\$ 55,416,671
Research	1,049,971	433,294	-	24,896	9,391	-	1,517,552
Public service	5,146,837	1,653,510	312,279	136,714	1,363	-	7,250,703
Libraries	1,422,648	736,699	91	95,919	-	-	2,255,357
Academic support	4,035,910	2,376,899	72,317	243,470	1,088	-	6,729,684
Student services	8,614,885	5,198,170	99,572	161,331	55,196	-	14,129,154
Institutional support	13,373,407	629,502	317,301	131,309	-	-	14,451,519
Operations and maintenance	5,515,043	4,614,556	5,900,958	22,395	-	-	16,052,952
Financial aid	-	-	-	-	10,093,167	-	10,093,167
Depreciation	-	-	-	-	-	8,091,601	8,091,601
Auxiliary	6,062,911	11,890,453	-	254,724	468,723	-	18,676,811
Auxiliary depreciation	-	-	-	-	-	787,325	787,325
Total expenses	\$ 92,013,013	\$ 34,695,088	\$ 6,859,370	\$ 2,001,165	\$ 11,004,934	\$ 8,878,926	\$ 155,452,496

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June 30, 2009 and 2008

Note 17: Natural Expense Classifications with Functional Classifications
(Continued)

Fund Classification	Year Ended June 30, 2008						
	Natural Classification						
	Compensation and Benefits	Operations	Utilities	Noncapitalized Equipment	Scholarships	Depreciation	Total
Instruction	\$ 47,708,876	\$ 6,965,571	\$ 145,164	\$ 756,343	\$ 19,585	\$ -	\$ 55,595,539
Research	1,262,048	657,529	-	84,979	-	-	2,004,556
Public service	5,001,799	1,043,170	243,645	65,659	500	-	6,354,773
Libraries	1,540,939	382,789	652	116,762	-	-	2,041,142
Academic support	3,953,563	2,013,944	241,767	274,486	23,300	-	6,507,060
Student services	9,121,699	4,964,079	96,374	390,633	107,402	-	14,680,187
Institutional support	11,324,926	885,661	168,568	202,996	-	-	12,582,151
Operations and maintenance	5,867,126	5,530,670	5,610,950	257,522	-	-	17,266,268
Financial aid	54,418	79,928	-	16,441	7,644,719	-	7,795,506
Depreciation	-	-	-	-	-	7,118,205	7,118,205
Auxiliary	5,866,778	11,246,406	-	37,434	118,919	-	17,269,537
Auxiliary depreciation	-	-	-	-	-	758,726	758,726
Total expenses	\$ 91,702,172	\$ 33,769,747	\$ 6,507,120	\$ 2,203,255	\$ 7,914,425	\$ 7,876,931	\$ 149,973,650

Note 18: Segment Information

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specifically identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses and assets and liabilities that are required by an external party to be accounted for separately. The University has two reportable segments: the Murray State University Housing and Dining System and the Susan E. Bauernfeind Student Recreation and Wellness Center.

Housing and Dining System

The University's Housing and Dining System was established by the 1965 Trust Indenture. The Housing and Dining System, as defined by this trust indenture, includes all student housing, dining and student center facilities and related enterprises facilities that now exist at the main campus in Murray, Kentucky. The University issues revenue bonds for this system to finance certain of its housing and dining auxiliary enterprise activities. These bonds will be payable from and will constitute a charge upon the gross revenue to be derived by the University from the operation of its Housing and Dining System. The revenues of the system consist of the gross amount of rentals received by the University for the use and occupancy of the facilities of the housing system and the net income from dining operations. These revenues do not include those generated by the University bookstore.

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Notes to Financial Statements
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Note 18: Segment Information (Continued)

Condensed financial information as of and for the years ended June 30 of the University's Housing and Dining segment is as follows:

Housing and Dining System - Condensed Balance Sheets

	2009	2008
Assets -		
Current assets	\$ 3,406,938	\$ 2,360,600
Noncurrent assets	7,728,737	7,815,805
Capital assets, net of accumulated depreciation	<u>18,733,204</u>	<u>19,254,541</u>
Total assets	<u><u>\$ 29,868,879</u></u>	<u><u>\$ 29,430,946</u></u>
Liabilities		
Current liabilities	\$ 521,916	\$ 592,452
Noncurrent liabilities	<u>23,424,625</u>	<u>24,762,467</u>
Total liabilities	<u>23,946,541</u>	<u>25,354,919</u>
Net assets		
Invested in capital assets, net of related debt	(3,847,378)	(4,977,506)
Restricted		
Expendable capital	3,277,879	3,776,756
Expendable debt service	3,988,776	3,840,030
Unrestricted	<u>2,503,061</u>	<u>1,436,747</u>
Total net assets	<u>5,922,338</u>	<u>4,076,027</u>
Total liabilities and net assets	<u><u>\$ 29,868,879</u></u>	<u><u>\$ 29,430,946</u></u>

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Notes to Financial Statements
June 30, 2009 and 2008

Note 18: Segment Information (Continued)

***Housing and Dining System - Condensed Statements of Revenues, Expenses
and Changes in Net Assets***

	<u>2009</u>	<u>2008</u>
Operating revenues	\$ 18,253,933	\$ 16,816,702
Operating expenses	(13,593,314)	(13,028,823)
Depreciation expense	<u>(785,827)</u>	<u>(757,231)</u>
Operating income	3,874,792	3,030,648
Nonoperating expenses	<u>(2,028,481)</u>	<u>(2,273,295)</u>
Change in net assets	1,846,311	757,353
Net assets, beginning of year	<u>4,076,027</u>	<u>3,318,674</u>
Net assets, end of year	<u><u>\$ 5,922,338</u></u>	<u><u>\$ 4,076,027</u></u>

Housing and Dining System - Condensed Statements of Cash Flows

	<u>2009</u>	<u>2008</u>
Cash flows from		
Operating activities	\$ 4,920,377	\$ 4,416,516
Noncapital financing activities	(1,235,082)	(1,115,495)
Capital and related financing activities	(3,013,561)	(5,628,557)
Investing activities	<u>230,786</u>	<u>297,609</u>
Net increase (decrease) in cash	902,520	(2,029,927)
Cash, beginning of year	<u>5,121,034</u>	<u>7,150,961</u>
Cash, end of year	<u><u>\$ 6,023,554</u></u>	<u><u>\$ 5,121,034</u></u>

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Notes to Financial Statements
June 30, 2009 and 2008

Note 18: Segment Information (Continued)

Susan E. Bauernfeind Student Recreation and Wellness Center

The University entered into an agreement with the City of Murray, Kentucky on December 30, 2002, to finance the construction of a student recreation/wellness center. The University established a \$3.00 per credit hour student fee, effective for the Fall 2002 semester, to be designated as the Wellness Center Fee. A portion of the revenues from this fee will be used to fund all debt and debt related expenses according to the terms and provisions of the Memorandum of Agreement between the University and the City of Murray.

Condensed financial information as of and for the years ended June 30 of the University's Wellness Center segment are as follows:

Wellness Center - Condensed Balance Sheets

	<u>2009</u>	<u>2008</u>
Assets		
Current assets	\$ 59,709	\$ 20,781
Noncurrent assets	1,333,715	1,160,730
Capital assets, net of accumulated depreciation	9,393,660	9,662,376
Total assets	<u>\$ 10,787,084</u>	<u>\$ 10,843,887</u>
Liabilities		
Current liabilities	\$ 55,173	\$ 52,262
Noncurrent liabilities	9,550,000	9,685,000
Total liabilities	<u>9,605,173</u>	<u>9,737,262</u>
Net assets		
Invested in capital assets, net of related debt	131,741	277,460
Restricted		
Expendable capital	457,433	366,192
Expendable debt service	539,313	447,982
Unrestricted	53,424	14,991
Total net assets	<u>1,181,911</u>	<u>1,106,625</u>
Total liabilities and net assets	<u>\$ 10,787,084</u>	<u>\$ 10,843,887</u>

Murray State University
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Note 18: Segment Information (Continued)

***Wellness Center - Condensed Statements of Revenues, Expenses
and Changes in Net Assets***

	<u>2009</u>	<u>2008</u>
Operating revenues	\$ 68,526	\$ 52,426
Operating expenses	(488,445)	(558,583)
Depreciation	(268,715)	(268,399)
Operating loss	<u>(688,634)</u>	<u>(774,556)</u>
Nonoperating revenues		
University budget support	478,181	439,225
Restricted student fees	644,137	657,059
Investment income	19,503	24,383
Transfer of renovation funding – current fund	6,739	-
Transfer of reserve payment – current fund	71,868	71,868
Cost of issuance amortization	(12,004)	(12,004)
Loss on deletion and disposal of capital assets	-	(57,951)
Interest on capital asset-related debt	(444,504)	(448,775)
Nonoperating revenues	<u>763,920</u>	<u>673,805</u>
Change in net assets	75,286	(100,751)
Net assets, beginning of year	<u>1,106,625</u>	<u>1,207,376</u>
Net assets, end of year	<u>\$ 1,181,911</u>	<u>\$ 1,106,625</u>

Murray State University
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Note 18: Segment Information (Continued)

Wellness Center - Condensed Statements of Cash Flows

	<u>2009</u>	<u>2008</u>
Cash flows from		
Operating activities	\$ (419,919)	\$ (605,436)
Noncapital financing activities	478,181	432,623
Capital and related financing activities	67,544	85,506
Investing activities	97,616	93,004
Net increase in cash	<u>223,422</u>	<u>5,697</u>
Cash, beginning of year	<u>861,863</u>	<u>856,166</u>
Cash, end of year	<u><u>\$ 1,085,285</u></u>	<u><u>\$ 861,863</u></u>

Note 19: Risk and Uncertainties

The University invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that such change could materially affect the investment amounts reported in the balance sheets.

Note 20: Current Economic Conditions

The current economic environment presents the University with unprecedented circumstances and challenges which, in some cases, have resulted in declines in the fair value of investments, declines in contributions, governmental support and grant revenue. The financial statements have been prepared using values and information currently available to the University.

A decline in the fair value of investments, as well as possible declining contribution revenues could have an adverse impact on the University's future operating results. As the Commonwealth continues to struggle with the impact of these economic conditions at the state level, governmental support is expected to continue to decline as well.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change, resulting in future adjustments in investment values that could negatively impact the value of the University's net assets.

Murray State University
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Notes to Financial Statements
June 30, 2009 and 2008

Note 21: Change in Accounting Principle

In 2009 the University changed its method of accounting for its federal and state grants similar to Pell based upon determination that these are nonexchange transactions. The effect of this change had no impact on net assets for June 30, 2009 and 2008. The operating revenues and nonoperating revenues (expenses) line items in the Statements of Revenues, Expenses and Changes in Net Assets for fiscal years 2009 and 2008 were affected by the following:

		2009	
		Before Change in Method	After Change in Method
Federal grants reported as operating revenues	\$	557,698	\$ -
State grants reported as operating revenues		6,896,990	-
Federal grants reported as nonoperating revenues		-	557,698
State grants reported as nonoperating revenues		-	6,896,990
Total		<u>\$ 7,454,688</u>	<u>\$ 7,454,688</u>

		2008	
		Before Change in Method	After Change in Method
Federal grants reported as operating revenues	\$	472,567	\$ -
State grants reported as operating revenues		7,238,039	-
Federal grants reported as nonoperating revenues		-	472,567
State grants reported as nonoperating revenues		-	7,238,039
Total		<u>\$ 7,710,606</u>	<u>\$ 7,710,606</u>